

# ***SECTION I***

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EXPENSE/INVESTMENT CRITERIA

CHRONOLOGY OF EXPENSE/ INVESTMENT RULES		
TIME PERIOD	LIMITATION	AUTHORITY
10/1/80 - 11/7/85	\$ 3,000	DACA-OMO MGS R 132200ZNOV80
11/8/85 - 9/30/86	\$ 5,000	P.L. 99-145, SECTION 303
10/1/86 - 12/3/87	\$ 3,000	NO STATUTE; REVERT TO DACA-OMO MGS NOV 80
12/4/87 - 9/30/89	\$ 15,000	P.L. 101-180, SECTION 303
10/1/89 - 11/28/89	\$ 5,000	P.L. 101-180, SECTION 303
11/29/89 - 9/30/93	\$ 15,000	P.L. 101-189, SECTION 315, REPEALED P.L. 101-180, SECTION 303. SEE ALSO DOD 7110-1-M, MAY 1990, P.241-7
10/1/93 - 9/30/94	\$ 25,000	P.L. 103-139, SECTION 8092
10/1/94 - PRESENT	\$ 50,000	P.L. 103-XXX, SECTION XXXX

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## APPROPRIATION

- CONGRESS OR REGULATION ESTABLISHES THRESHOLD
- \$50k OR MORE IS AN INVESTMENT
- LESS THAN \$50K IS AN EXPENSE

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- A SYSTEM/END ITEM COSTING IN EXCESS OF THE DOLLAR THRESHOLD IS AN INVESTMENT
- A SYSTEM/END ITEM COSTING LES THAN THE DOLLAR THRESHOLD IS AN EXPENSE
- ANY SYSTEM/END ITEM WHICH IS CENTRALLY-MANAGED IS AN INVESTMENT REGARDLESS OF THE COST

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**TOTAL SYSTEM CONCEPT**

- A NUMBER OF COMPONENTS WILL BE INTERCONNECTED
- AND/OR DESIGNED PRIMARILY TO OPERATE TOGETHER
- WITH THE INTENT TO SATISFY A SPECIFIC REQUIREMENT
- MUST NOT BE ACQUIRED IN A PIECEMEAL MANNER
- THE COMPONENTS OR A SYSTEM CANNOT BE PURCHASED IN A PIECEMEAL MANNER TO CIRCUMVENT THE TOTAL SYSTEM CONCEPT

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## DEFINITIONS

**REQUIREMENT.** This is the basic determining factor for all expense/investment criteria decisions. A requirement consists of the set of capabilities which are necessary to perform the mission. This set of capabilities directs the decision as to what is or is not part of a system, or what is an independent upgrade. Neither the capability nor the requirement will be fragmented to circumvent application of the expense/investment criteria.

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## DEFINITIONS

**SYSTEM.** There are two considerations for the definition of a system. The first consists of an automation capability which is centrally managed and must be considered by a Major Automated Information Systems Review Committee (MAISRC). The second is generic and could be any combination of components/items which work together to perform a function or to satisfy an approved requirement as defined above.

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## DEFINITIONS

**CENTRALIZED ITEM MANAGEMENT AND ASSET CONTROL.** The management in the central supply system or a DoD-wide/Service-wide acquisition and control system in which the manager has the authority for management and procurement of items of equipment. This includes such functions as requirement determination, distribution management, procurement direction, configuration control and disposal direction. Asset control includes the authority to monitor equipment availability and take such actions as necessary to restock to approved stockage levels.



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## **TOTAL SYSTEM COST**

AGGREGATE COST OF ALL NEW EQUIPMENT ITEMS  
ADDED TO THE SOFTWARE COSTS BEING  
ACQUIRED TO MEET A SPECIFIC REQUIREMENT

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**Q:** OUR COMMAND HAS 50 INTEL COMPUTERS WHICH WERE PURCHASED WITH INVESTMENT FUNDS. AT A LATER DATE WE INTEND TO PURCHASE PERIPHERAL DATA PROCESSING EQUIPMENT SUCH AS WORKSTATION TERMINALS, PRINTERS, ETC. AT A COST OF \$600K. SINCE WE ALREADY HAVE THE INTEL COMPUTERS MAY WE USE O&M FUNDS TO PURCHASE THE PERIPHERAL EQUIPMENT AS INDIVIDUAL ITEMS OF EQUIPMENT?

**A:** NO; THE PERIPHERAL EQUIPMENT IS TO BE ACQUIRED TO WORK AS A SYSTEM WITH THE 50 INTEL COMPUTERS AND, AS SUCH, IS SUBJECT TO THE EXPENSE/INVESTMENT CRITERIA. THE \$600K EXCEEDS THE THRESHOLD AND OPA FUNDS SHOULD BE USED.

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EXPENSE/INVESTMENT CRITERIA

**Q:** OUR COMMAND REQUIRES FOUR CENTRAL PROCESSORS, 50 WORKSTATION TERMINALS AND FOUR PRINTERS TO AUTOMATE MY DIVISION. SINCE EACH CONTRACT LINE ITEM IS LESS THAN THE \$50K EXPENSE/INVESTMENT THRESHOLD, MAY WE USE O&M FUNDS EVEN THOUGH THE TOTAL COST EXCEEDS THE THRESHOLD?

**A:** NO; THE WORKSTATION TERMINALS AND PRINTERS ARE AN INTEGRAL PART OF THE TOTAL SYSTEM. THE TOTAL SYSTEM COST IS THE DETERMINING FACTOR IN APPLYING THE EXPENSE/INVESTMENT CRITERIA EVEN THOUGH YOU MAY HAVE MORE THAN ONE CONTRACT LINE ITEM AND INTEND TO USE MORE THAN ONE VENDOR.

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**Q:** OUR COMMAND HAS A VALID REQUIREMENT FOR A LOCAL AREA NETWORK (LAN). THE LAN WILL CONSIST OF HARDWARE, TELECOMMUNICATIONS, AND SOFTWARE WITH A TOTAL ESTIMATED COST OF \$60K. WHAT TYPE OF FUNDS SHOULD WE USE?

**A:** INVESTMENT FUNDS ARE APPROPRIATE. THE AGGREGATE COST OF ALL NECESSARY EQUIPMENT AND UNMODIFIED OFF-THE-SHELF EQUIPMENT AND UNMODIFIED OFF-THE-SHELF SOFTWARE TO BE PROCURED WILL BE THE FACTORS USED TO DETERMINE THE TOTAL SYSTEM COST.

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**Q:** WHAT COLOR MONEY MAY OUR COMMAND USE  
TO BUY OFF-THE-SHELF SOFTWARE?

**A:** AGGREGATE COST OF ALL NEW EQUIPMENT  
ITEMS ADDED TO THE SOFTWARE COSTS BEING  
ACQUIRED TO MEET A SPECIFIC REQUIREMENT

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EXPENSE/INVESTMENT CRITERIA

SOFTWARE ACQUISITION  
CONDITION

OPTION 1: ONE-TIME  
UP-FRONT PAYMENT

USE

USE OF THE SW OVER THE  
LIFE OF THE SYSTEM WITH  
NO FURTHER PAYMENTS  
FOR MAINTENANCE/  
MODIFICATIONS INITIATED  
BY VENDOR

FUNDING  
APPROPRIATION  
SUBJECT TO THE  
EXPENSE/INVESTMENT  
CRITERIA

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EXPENSE/INVESTMENT CRITERIA

SOFTWARE ACQUISITION  
CONDITION

OPTION 2: ONE-TIME  
UP-FRONT PAYMENT

USE  
PURCHASE OF LICENSE

FUNDING  
APPROPRIATION  
SUBJECT TO THE  
EXPENSE/INVESTMENT  
CRITERIA

WITH ADDITIONAL FEES FOR MAINTENANCE/MODIFICATIONS  
EXPENSE

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EXPENSE/INVESTMENT CRITERIA

SOFTWARE ACQUISITION

CONDITION

OPTION 3: ANNUAL FEES

USE

USE OF THE LICENSE  
ITSELF WITH ADDITIONAL  
ANNUAL FEES FOR  
MAINTENANCE AND  
MODIFICATIONS PROVIDED  
BY THE VENDOR

FUNDING  
APPROPRIATION  
EXPENSE



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**Q:** MAY MY COMMAND USE O&M FUNDS TO ACQUIRE A STAND-ALONE PERSONAL COMPUTER WHICH IS COMPOSED OF SEPARATE COMPONENTS AND OFF-THE-SHELF SOFTWARE WITH A TOTAL COST OF \$10K?

**A:** YES; O&M FUNDS ARE APPROPRIATE SINCE THE TOTAL COST OF THE SYSTEM IS UNDER THE \$50K EXPENSE/INVESTMENT THRESHOLD.

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**Q:** OUR COMMAND REQUIRES AN OFF-THE-SHELF SOFTWARE PACKAGE TO USE ON GENERAL PURPOSE HARDWARE. THE VENDOR REQUIRES A ONE-TIME UP-FRONT PAYMENT FOR THE LICENSE(150K) AND ADDITIONAL FEES FOR MAINTENANCE/MODIFICATIONS. SHOULD WE USE INVESTMENT FUNDS SINCE THE \$150K EXCEEDS THE THRESHOLD?

**A:** **YES**; YOU MUST USE INVESTMENT FUNDS FOR THE ONE-TIME UP-FRONT PAYMENT. **NO**; YOU SHOULD USE O&M FOR THE ADDITIONAL FEES SINCE SERVICES RENDERED ARE CONSIDERED AN EXPENSE.

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EXPENSE/INVESTMENT CRITERIA

**Q:** MAY OUR COMMAND BY MIPR OR RO  
PROVIDE FUNDS TO A STATE ACTIVITY OR  
FEDERAL AGENCY TO USE ITS CONTRACT  
FOR ACQUIRING ADP SUPPORT?

**A:** YES

**Q:** IT DOES NOT MATTER WHAT COLOR OF  
FUNDS WE USE - RIGHT?

**A:** WRONG

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EXPENSE/INVESTMENT CRITERIA

**Q:** WHAT IS THE RELATIONSHIP BETWEEN THE CAPITALIZATION, APPROPRIATION, AND OBJECT CLASSIFICATION RULES, AS THEY PERTAIN TO THE EXPENSE/INVESTMENT CRITERIA?

**A:** THE CAPITALIZATION AND OBJECT CLASSIFICATION RULES PERTAIN TO ACCOUNTING WHEREAS THE APPROPRIATION RULES ARE USED TO DETERMINE ELIGIBILITY FOR FINANCING FROM SPECIFIC APPROPRIATIONS TO BE USED FOR ACQUISITION OF ADPE AND SOFTWARE.

EXPENSE/INVESTMENT CRITERIA

## RESPONSIBILITIES

- o MUST CHALLENGE AND QUESTION
  - IF GOING OUTSIDE THE COMMAND, WHY?
  - WHAT DOES THE ORDER INCLUDE?
  - WHAT IS THE END ITEM?
    - AN INVESTMENT BURIED UNDER A SERVICE CONTRACT?
    - A PIECEMEAL BUY OF A SYSTEM?
  - WHAT ARE THE HIDDEN COSTS - ARE YOU TAKING ON A RECURRING COST, SUCH AS:
    - AN ANNUAL SOFTWARE LICENSE FEE?
    - AN ANNUAL SOFTWARE MAINTENANCE COST?

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o WHAT IS IMPROPER?

- IN MANY CASES THE ACQUISITION IS IN CONTRAVENTION OF THE EXPENSE/INVESTMENT CRITERIA
- SOME MIPRs OR ROs ARE NOT SPECIFIC IMPLYING THAT A SERVICE IS BEING PURCHASED WHEN IN FACT IT IS HARDWARE AND/OR SOFTWARE
- SOME APPEAR TO LAUNDER FUNDS TO CHANGE THE COLOR OR OR EXTEND THE LIFE OF THE APPROPRIATION
- COULD RESULT IN A VIOLATION OF THE ANTIDEFICIENCY ACT IF THE PROPER APPROPRIATION IS NOT AVAILABLE

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- o COMMANDS USING A STATE ACTIVITY OR ANOTHER FEDERAL AGENCY TO ACQUIRE ADP EQUIPMENT AND SOFTWARE
- o HOW THIS IS DONE:
  - MIPR OR RO USING O&M IS SUBMITTED TO THE STATE ACTIVITY OR AGENCY FOR ACQUISITION OF ADP EQUIPMENT, SOFTWARE, OR BOTH
  - THE STATE/FEDERAL ACTIVITY/AGENCY DOES NOT CHALLENGE THE COLOR OF FUNDS
  - THE STATE/FEDERAL ACTIVITY/AGENCY THEN PLACES THE ORDER AGAINST AN EXISTING CONTRACT, PERMITS THE EXISTING CONTRACTOR TO SUBCONTRACT, OR AWARDS A CONTRACT

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CORRECTION TO AR 37-100-90

AR 37-100-91, ELEMENTS OF RESOURCE

EOR 2600 DEFINITIONS STATES:

THAT THE EXPENSE/INVESTMENT THRESHOLD FOR  
ADP SOFTWARE IS \$25K. THIS WAS INCORRECT;  
\$15K WAS CORRECT. THE OBJECT CLASSIFICATION  
HAS NOTHING TO DO WITH FUND DETERMINATION

EOR 3100, AR 37-100-90, STATES:

. . .WHEN ONE ITEM CAN BE CONNECTED OR  
PLUGGED INTO ANOTHER ITEM OR ITEMS, EACH WILL  
BE TREATED AS SEPARATE FOR PURPOSE OF FUND  
DETERMINATION . . . THIS IS INCORRECT